
J.C. PENNEY COMPANY ANNUAL REPORT 1967

Ken Gobrecht is a veteran retailer, having joined Penney's in 1949 when he was 21 years old. He manages Penney's San Leandro store in suburban San Francisco.

PENNEY'S AND ITS ASSOCIATES

This annual report is designed to serve two purposes. First, it is a traditional report, discussing the important developments of 1967. Second, it is an introduction to the people of the J. C. Penney Company.

Penney's approach to executive development should be of interest to shareholders, because the Company's young men and women will play a crucial role in our future growth.

On page 4, there is a special section about our people. And photos of young Penney associates throughout the report show how quickly responsibility is earned in your Company.

On the cover are eight young associates who have earned responsible positions. Starting clockwise, from the bottom, they are Jane Ruhm, 27, assistant buyer for catalog sportswear coordinates; Jill Lehman, 25, assistant buyer for women's accessories and gloves; John Mountain, 26, assistant buyer for men's sleepwear and robes; Bettina Clark, 26, assistant buyer for misses better coats; Clark Brown, 28, assistant buyer, candy and smoke shop; Bill Stevens, 30, associate buyer, women's junior and junior petite dresses; Larry Lonergan, 28, assistant buyer for the young international designer collection; and in the middle, Dick Grimm, 29, associate buyer, women's junior and junior petite dresses.

Contents

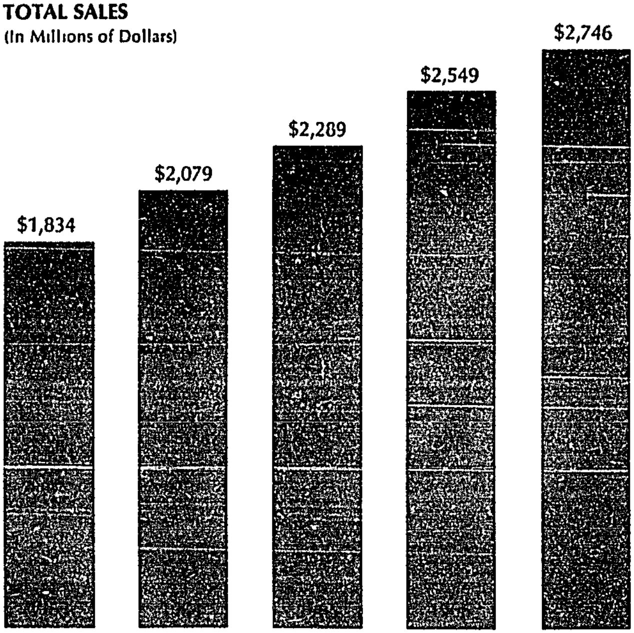
FIVE YEARS OF PROGRESS

	1967	1966	1965	1964	1963
Sales	$2,745,997,581	$2,549,361,688	$2,289,209,426	$2,079,425,668	$1,834,317,527
Net income	$89,549,746	$79,059,029	$78,898,254*	$68,271,402	$55,292,198
Net income per share	$3.59	$3.17	$3.16*	$2.74	$2.22
Dividends	$44,906,274	$43,034,146	$43,034,080	$37,406,836	$37,391,768
Dividends per share	$1.80	$1.72½	$1.72½	$1.50	$1.50
Capital expenditures	$109,090,390	$70,838,765	$45,824,287	$39,835,780	$19,966,950
Number of full-line stores	116	81	56	27	10

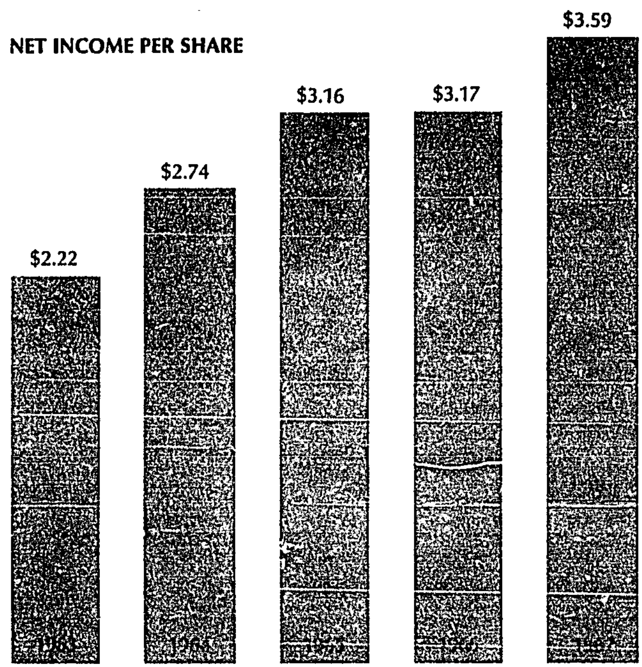
*Includes net gain of $2,840,865, or 11 cents per share, from the sale of Penney's former headquarters building in New York.

Years 1965 through 1967 are 52-week periods ended on the last Saturday in January of the subsequent year, 1963 and 1964 are fiscal years ended January 31 of the subsequent year.

TOTAL SALES
(In Millions of Dollars)



NET INCOME PER SHARE



TO OUR STOCKHOLDERS

Chairman William M. Batten

President Ray H. Jordan

Penney's sales rose 7.7% to a new high of $2.75 billion in fiscal 1967 from $2.55 billion in 1966. Net income increased to almost $90 million, or $3.59 a share, from $79 million, or $3.17 a share, in 1966.

Our first full-line store was opened in 1963 in suburban Philadelphia. During the four years since then our earnings per share have increased by 62%, a compound annual growth rate of 13%.

We now have a total of 116 full-line stores, including 35 opened in 1967. Most are located in shopping centers near cities and offer large assortments of soft and hard lines of merchandise as well as automotive services.

The average Penney store opened in 1963 was about 95,000 square feet, and our capital expenditures were about $20 million that year. Our new stores opened last year averaged 185,000 square feet, and a number were more than 200,000 square feet. Capital expenditures in 1967 rose to $109 million.

Our stores in smaller communities continue to be productive. Many of them have been modernized over the past five years. Penney's will continue to serve customers in these smaller markets as well as to attract customers in large new markets.

In 1963, we issued our first Penney catalog. Catalog sales that year were concentrated in six Midwestern states. By the end of last year we had catalog desks in 628 stores in 24 states. Distribution of catalog merchandise is currently handled at our modern distribution center in Milwaukee.

Five years ago our credit sales amounted to $507 million, or 27.6% of total sales. Last year Penney's credit sales crossed the $1 billion mark for the first time, representing 37.6% of total sales.

During 1967 our expansion program continued to show significant progress:

• We opened 36 stores last year, of which 20 were relocations of older stores. This included 33 stores opened in shopping centers. At year-end we had 1,664 stores after closing 13.

• We added 5.4 million square feet of store space.

• We installed catalog desks in 74 of our stores.

• We marketed for the first time accident and health insurance by direct mail to customers in selected areas of the country. This was made possible by the acquisition of two insurance companies, now named J. C. Penney Insurance Company and J. C. Penney Life Insurance Company. Customer response to this new service has been encouraging.

In 1968, we look forward to continued expansion:

• We plan to add about 6 million square feet of store space, with 39 new stores, including 20 relocations.

• The new stores will include four Treasure Island stores in Atlanta. This will mark the first expansion of Treasure Island outside Wisconsin.

• We plan to commence construction of a 2 million-square-foot catalog distribution center in Atlanta.

• We will have in full operation a new 750,000-square-foot store distribution center in Buena Park, near Los Angeles. This center will serve Penney stores in the greater Los Angeles area.

• We expect to open catalog desks in 40 stores in the states presently served.

Last year was a good one for Penney's. Despite consumer caution about spending — reflected in the highest rate of savings in more than a decade—your Company was able to achieve a substantial increase in profits by virtue of its expansion program and close attention to the control of costs and inventories.

Most economists view 1968 as a year of economic uncertainty. We believe that by continuing and strengthening the programs which enabled us to increase profits in 1967, we can make 1968 another good year for the Penney Company.

William M. Batten
Chairman of the Board

Ray H. Jordan
President

March 21, 1968

Imaginative young men and women are on the move at Penney's and moving the Company.

These men and women come from varied backgrounds in terms of both geography and experience. They were educated in small and large schools throughout the nation. They are absolutely vital to our nationwide operations. Their optimism and response to challenge are making exciting changes take place at Penney's. These men and women are Penney's leverage for growth.

Positions at Penney's are varied in responsibility and career opportunities, reflecting the diversity of our organization. In stores there are management positions that include store managers, sales and merchandise managers, division and department managers, personnel managers and various specialized positions.

In addition, there is a large number of positions that provide support for our store and other operations. They include: buyers, merchandising managers, architects, computer programmers, fashion consultants, financial analysts, attorneys, distribution experts, accountants, advertising copywriters, catalog merchandisers, credit managers, and people with many other skills.

In the Penney Company, an environment exists which encourages people to develop themselves, because their growth and the Company's progress are inseparable.

We cannot make people grow. But we can maintain an environment in which people can develop themselves, with the assistance of intelligent management leadership and training support. The promotional pace has accelerated. We offer early responsibility on an open-to-all, merit-alone basis. There are trainees in Penney stores today who can earn promotions to department managers after being with us only 18 to 24 months. This is why many department managers are in their 20's.

Once an associate earns his way into management, whether as a department or store manager, or in corporate general management, he has plenty of incentive to grow with the Company and to do creative, meaningful work. Also, many of our management associates are compensated through both salary and a profit sharing plan, so that they are able to share in what they help to create.

Last year about 800 of our associates earned promotions within store management, and more than 350 achieved more responsible positions in general management. The store promotions included more than 275 associates who became store managers for the first time or managers of larger stores.

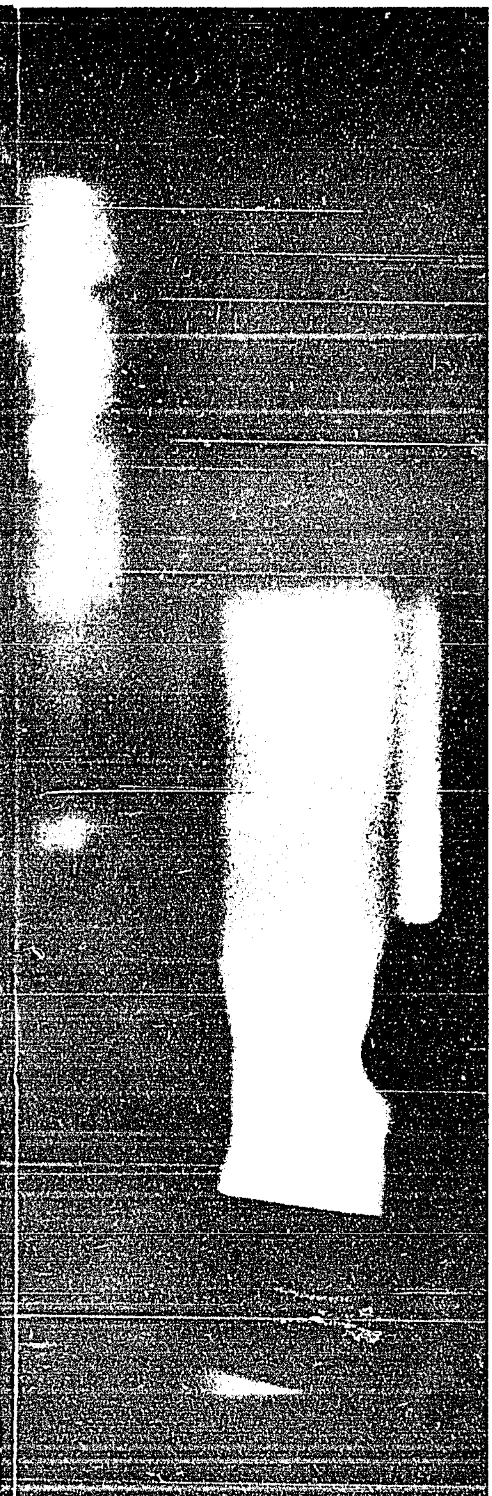
A conservative estimate indicates that about 5,000 of our associates will either achieve management positions or move up to higher management positions during the next five years. Their progress will not be accidental. It is supported by a Company program that identifies positions to be filled in the future, defines the qualifications for these positions, and, at the same time, follows consistently the progress of each associate.

How does Penney's find the men and women needed to keep the Company moving? In a very real sense almost everyone within the Company is conducting a search. Specifically, our store management, field and general management—supported by a professional recruitment staff—seek out college graduates from more than 300 campuses. Penney's also recruits graduates of junior colleges and high schools, and hires people with mature work experience in specialized areas.

Retailing is a business of constant change and innovation. At Penney's, the change has been dramatic and exciting in the last five years as we have moved into new metropolitan areas and have introduced new lines of merchandise and merchandising methods, and have attracted new customers. For our associates, the change has created an environment of challenge and opportunity.

To make sure that catalog customers know exactly what they are buying, merchandise must be displayed precisely in Penney catalogs. These young men are viewing slide films to check color fidelity of catalog photography. From left, they are John Guest, 29, catalog plans manager for home furnishings; Mike McFadden, 25, catalog furniture merchandiser; and John Williams, 29, catalog merchandiser for household textiles.

Anita Paul, 31, dashes out of Penney's headquarters building to attend an industry-wide fashion show to keep up with the latest styles and trends. As fashion promotions adviser for Penney's, Miss Paul is responsible for promoting fashion in Penney stores through advertising media, as well as advising merchandising staffs on effective fashion presentations. She has been with Penney's six years.



REVIEW OF 1967

There has been a remarkable change at Penney's since 1963, when we opened our first full-line store. The change has featured a major expansion program, hundreds of new products and services, and millions of new customers.

To achieve our objectives in major metropolitan markets across the nation, we continue to stress quality, value and courteous service, and we are planning our new stores and merchandise to appeal to the fashion-conscious customer. We are aware that the youthful look is popular today with all age groups. By appealing to youth, we are able to attract new customers of all ages.

Here are some highlights of our continued progress in 1967:

Soft Lines

Fashion: In almost all types of clothing and other fashion merchandise, the trend is toward a total look. Thus, in all our full-line stores, we offer a complete fashion line of clothing, accessories and specialized services.

We have special departments, such as jewelry, cosmetics and beauty aids, which make Penney's a complete headquarters for fashion needs.

In women's ready-to-wear, we are increasing our position in the junior and junior petite markets, which encompass both smaller sizes and youthful customers. Junior shops are being opened in all our full-line stores. These stores are offering broader assortments of junior and petite apparel, sold primarily by young personnel.

To aid our promotional efforts in these youth markets, we have strengthened our Young Designer Program of new fashion lines. Such famous designers as Mary Quant of London and Victoire and Ariel of Paris will be joined by an American designer in 1968.

Our infants', children's and preteen departments have been attracting new customers with new fashion items in both wearing apparel and accessories.

In our fine jewelry departments, a substantial portion of the business is in precious stones. At the end of 1967 we had 66 of these departments, and we plan to open 20 more in 1968.

Our full-line stores also feature beauty salons. We had 82 salons at the end of last year and plan to open 30 in 1968.

The Inn Shop: Near the end of 1967 we opened our first Inn Shop in a new full-line store in Columbus, Ohio. This self-contained shop features young men's apparel, furnishings and accessories primarily for the 15- to 25-year-old group, the fastest growing segment of the U.S. population. Inn Shops will be important departments in new Penney stores.

The Inn Shops will supplement our regular men's departments, not replace them. Their personal service and informal atmosphere are particularly appealing to many customers. Their purpose is to help us gain wider acceptance in the important youth market.

Inn Shops will occupy up to 1,700 square feet and will offer slacks, sports coats, shirts, belts, sweaters, ties, jackets and suits, with merchandise displayed to suggest the total look. Through these shops, we are able to present more fashion merchandise in an appealing way.

Hard Lines

About a third of the floor space of our full-line stores is devoted to hard lines. Also, about a third of the catalog is devoted to hard goods. Company-wide hard lines account for slightly more than 10% of total sales.

Auto Centers: Penney's automotive centers are a fast-growing part of our business. Since 1963, when we opened our first service center, 147 centers have been put into operation, including 36 in 1967. In 1968, we expect to open about 50 more.

Many of the new centers include automobile diagnostic service, which has been particularly popular with customers. Cars are subjected to 212 tests, conducted mainly with precision electronic equipment. We

All of J. C. Penney Company's eleven regional credit offices are equipped with the latest generation of computers. Assistant data processing manager Wayne Abbey, 33, of our Atlanta credit office, is holding a tape disc that contains records of 30,000 Penney charge account customers.

opened our first diagnostic center in 1966, added 19 last year and plan to open about 17 more in 1968.

Numerous other services and products have been introduced at the auto centers since 1963. One is Penney-brand gasoline, introduced in 1964. Our gasoline, which can be purchased with a Penney charge card, helps stimulate sales of our other automotive products. At the end of last year, 62 Penney automotive centers were selling gasoline under the Penney brand, and we expect the number to rise to nearly 100 by the end of 1968.

To develop the trained personnel to manage and operate these auto centers, Penney's opened its first two training schools last year—one on the East Coast and one on the West Coast. A third training center will be opened in the Denver area this spring. Courses at these schools include sales, complete service procedures and management techniques.

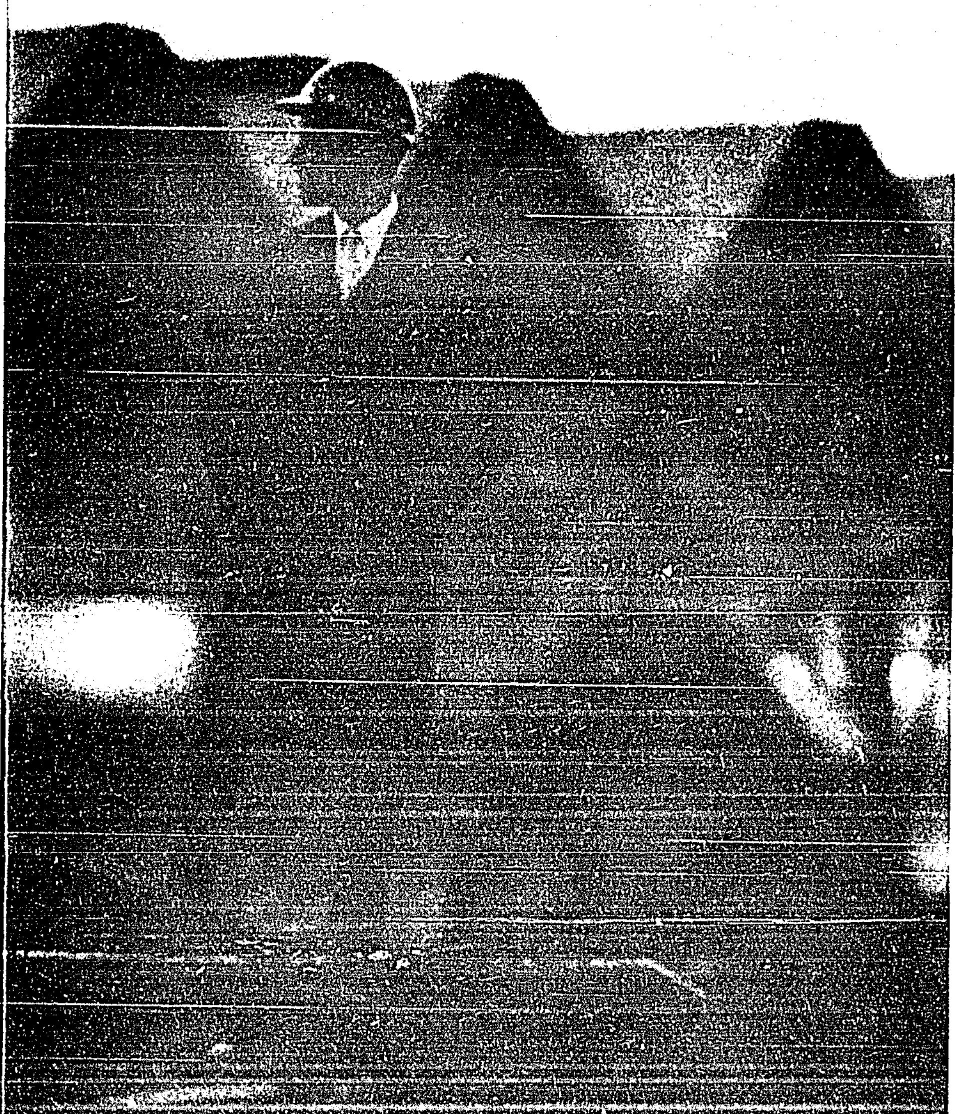
Appliances: Penney's continued to expand and refine its lines of small and large appliances in 1967. A self-cleaning oven and an all-purpose floor cleaner were introduced under the Penncrest label, and our refrigerator and washing machine lines were expanded. Many of these appliances are sold in a variety of colors and models in line with the trend toward decorative appliances.

Electronics: In 1967, Penney's introduced the Penncrest 14-inch color television set and expanded its Penncrest tape recorder line. Sales of color TV sets—both portable and console models—increased during the year. Large stereo sets also sold well.

Phonograph Records: At year-end, 400 Penney's stores had record departments, up from 60 five years ago. Every new full-line store has a record department.

About 90% of the records sold by Penney's have a special appeal to teenagers and pre-teens. This young sound creates an air of excitement in our record departments and helps attract new customers. In many cases, record sales have been promoted

Dick Rubenoff, 39, has been busy lately helping to prepare for the entry of Penney's Treasure Island stores into the Atlanta market. His job is Real Estate Division attorney in Penney's Southern Zone. Here, he visits the site of one of the four new Treasure Island stores scheduled to open in Atlanta this year. He has been with Penney's 1½ years.



through personal appearances of top recording stars and groups. By drawing young customers into our stores this way, we have given them a chance to see and buy a wide variety of our fashion merchandise.

Other hard lines: Penney's offers a wide range of other hard-line merchandise—everything from paints to cameras, sporting goods to sewing machines. Many of these items are featured in both our catalog and our new stores.

In sporting goods, family-type merchandise was particularly popular in 1967. Examples are camping equipment and pool tables retailing as high as $699.

Although most of our camera volume is in lines selling for popular prices, customers are becoming more interested in professional models priced up to $289.

Sales of family-room furniture were strong. A new dining and bedroom line was introduced under Penney's Fashion Manor label, and several new lines are planned for 1968. Prices range from $197 to $888 for family-room furniture, from $265 to $715 for dining room sets and from $199 to $890 for bedroom sets.

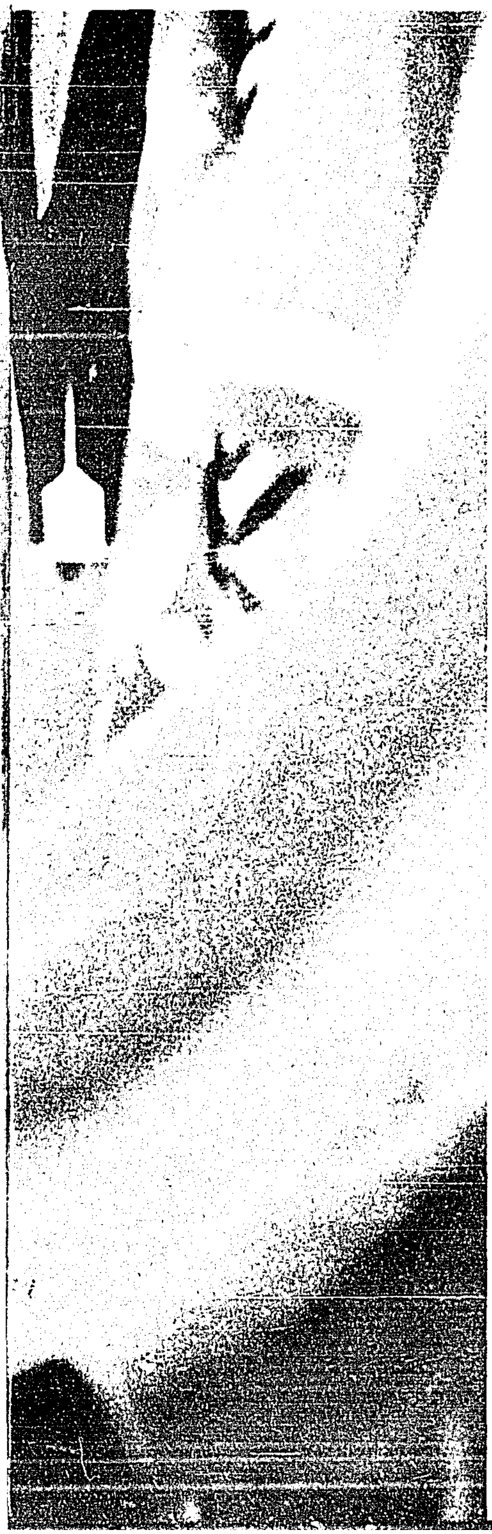
Many teenage girls now are making their own clothes, with the result that demand for Penney-brand sewing machines is growing. The trend also has helped significantly to improve sales of fashion fabrics.

Shop at Home

Ever since Penney's began offering custom home-decorating services five years ago, the demand has grown steadily among our customers. Basically this is a shop-at-home program with the dual advantages of convenience and expert assistance.

The service includes in-home consultation and the sale and installation of draperies, slip covers, re-upholstery, floor coverings and accessories. In areas where there are full-line Penney stores, furniture and appliance sales also are generated by our decorating consultants, who can see a customer's complete furnishing needs when visiting her home. The

Sue Hinman, 24, a dress distributor, has been with Penney's only 1½ years, but she already has the responsibility for selecting assortments of women's dresses for 49 Penney stores.



new service has been developed because of growing consumer interest in home decorating and the marketing opportunities available through home visits.

By year-end, Penney's was offering custom decorating services in 102 market areas with a total population exceeding 30 million. These areas include such major metropolitan markets as Chicago, Los Angeles, San Francisco, St. Louis, Kansas City, Seattle, Milwaukee and Jacksonville. There are 350 Penney stores offering this custom service. Our decorating centers are supervised by trained consultants, who are available to customers to discuss decorating problems and ideas.

Catalog Business

Catalog is no longer the traditional mail order business. It is an integral part of our total merchandising operation.

We regard our catalog as a convenience that provides a number of shopping options. In 24 states customers can go to a catalog desk in a Penney store and place orders for merchandise. They usually do this while shopping in the store.

Customers also select Penney products from our catalog at home and mail in their orders to our 2 million-square-foot distribution center in Milwaukee. In addition, they can telephone in their orders to catalog desks in stores.

We find that our customers use the catalog as a shopping guide, a convenient way to review merchandise before visiting a Penney store. The catalog provides customers of our smaller stores with a broader selection of merchandise than the store would otherwise be able to offer.

In Atlanta and Dallas we have been issuing special editions of the Penney catalog since 1966 to expand our catalog business in the Southeast and Southwest, and at year-end we had 148 catalog desks in stores in these regions.

Because our catalog sales have grown considerably in these areas, we have taken the next step toward improving catalog service to our customers. We have completed revised plans for the development of a 2 million-square-foot catalog distribution center near Atlanta, Georgia. Originally announced in June 1966, the project had been deferred to provide more time to develop plans and specifications as well as to refine systems. Our plans call for the facility to be in operation late in 1969.

In the past two years Penney stores with catalog desks in the Southeast and Southwest have been serviced by our distribution center in Milwaukee. Electronic communications, computer processing and mechanized handling systems made this long-distance service possible. Construction of a center in Atlanta will further improve service to our customers and, at the same time, make it possible to increase volume and expand the areas served by our catalog.

Treasure Island

In 1968, our Treasure Island stores will expand outside Wisconsin for the first time with a major penetration of the Atlanta market. Four new units will be built in Atlanta—all large, free-standing stores. Each unit will have a basic store of 180,000 square feet plus a 20,000-square-foot automotive and gasoline center and a 6,000-square-foot garden center. Three of the stores will open in the summer, the fourth later in the year.

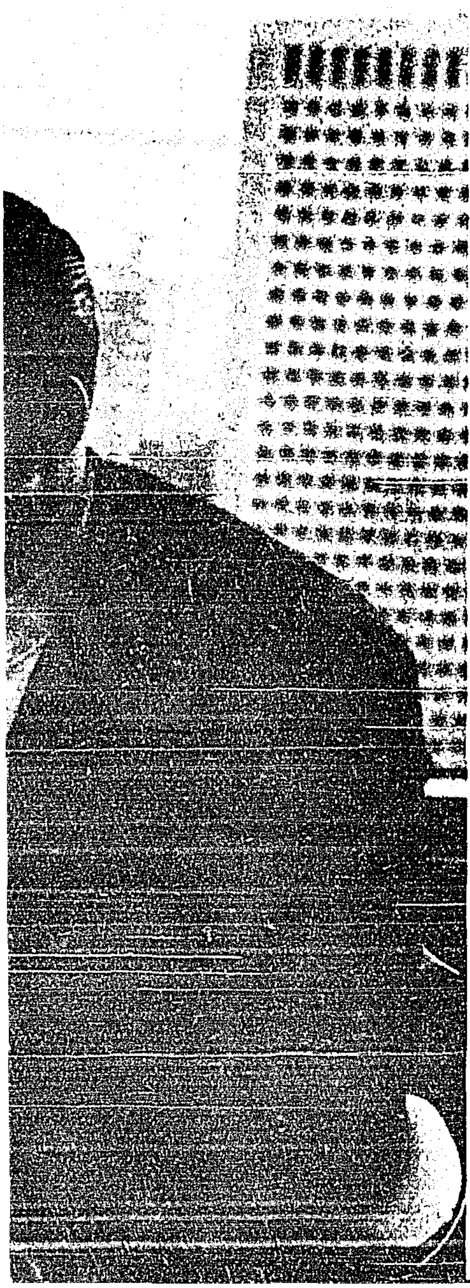
The first Treasure Island store was opened in Appleton, Wisconsin, in 1961, and by the end of last year there were six in operation.

These stores offer a wide variety of services and merchandise, including a food supermarket. They are designed for convenience and provide a relaxed shopping atmosphere: the operation is a combination of self-service and customer assistance. Shopping carts are available, and there is a supermarket-type checkout system. The merchandise sold combines Treasure Island's private labels and national brands.

In 1967, Treasure Island added a half million gross square feet of floor space:

(continued)

Zone Manager Clarence Doctor, left, is headquartered in San Francisco. His Western Zone covers 280 Penney stores and 10 districts. He is dining here with Sigurd Thorlakson, 28, zone house and garden merchandiser for Penney stores in the Western Zone.



• The original store in Appleton was doubled in size to 150,000 square feet of floor space.

• In the late fall, a new 195,000-square-foot store was opened in Brown Deer, a suburb of Milwaukee. This is the largest Treasure Island store we operate.

• Major expansions were completed at West Allis and Brookfield, both suburbs of Milwaukee. Each store opened an additional 35,000 square feet of space to provide for home furnishings centers.

• In addition, a Treasure Island warehouse and distribution center was opened to support the four stores in the Milwaukee area.

Besides the expansion in Atlanta in 1968, automotive and gasoline centers will be added to the existing stores in Appleton and Brown Deer.

Distribution

The construction of distribution warehouses for specific kinds of merchandise, such as fashion apparel, has made for speedier stock replenishment to Penney stores. It also has allowed the stores to lower their investment in inventory and to increase their profits and their ability to react quickly to changing fashion trends.

As a result of our distribution research, we will have in full operation this year a 750,000-square-foot distribution center in Buena Park, near Los Angeles. The center marks a major step by Penney's toward streamlining its distribution systems. In addition to acting as a stockroom for Penney stores in the greater Los Angeles area, the new center has these basic functions:

• Receive, check and mark merchandise and deliver it directly to stores in Southern California.

• Handle home deliveries of appliances and furniture for the stores.

• Stock and process lines of merchandise with special local appeal.

• Operate a pool of fashion merchandise for distribution to stores in the Los Angeles area.

Data Processing

Computers and other advanced data processing equipment are proving to be particularly helpful in making Penney's vast distribution network run smoothly and efficiently. They are essential to inventory control and reordering. They provide our buyers and stores with detailed information to make purchasing decisions involving millions of dollars.

Computers also help our customers. In 1967, for instance, we installed a computerized Direct Order Transmission Sytem (DOTS) in 160 Penney stores to provide customers with better catalog service.

DOTS works this way: A customer orders from a Penney catalog in one of the 160 stores. Her order is teletyped immediately to a computer at our catalog distribution center in Milwaukee. The computer maintains a complete record of our merchandise inventory as well as a record of the customer's account.

The customer does not have to use the mail to place her order, and she gets speedier service. This system saves a considerable amount of time and money because the Company doesn't have to bother with costly manual control procedures and key punching.

Consumer Financial Services

Insurance was a new business for Penney's last year. Early in the year we test marketed accident and health insurance in selected areas of the country through direct mail. This was followed by more extensive mailings over broader areas.

By the end of the year we had marketed accident and health policies to Penney charge customers in 24 states, and by the end of 1968 we expect to be offering accident and health insurance in 40 states. In addition, J. C. Penney Life Insurance Company plans to test market life insurance in 1968.

Our two insurance companies had a small operating loss in 1967 as anticipated. We do not expect our current insurance operations to have a significant impact on profits in the near future. However, the long-range

The store is new and big and the managers are young and aggressive. The Penney managers pictured here run a new 230,000-square-foot unit opened last November outside Nashville, our first store in that area. But the management team is equally impressive at Bay Shore, New York, or Concord, California, or at any of Penney's other new full-line stores. The Nashville store employs 350 people and is the largest Penney outlet in the Southeast.

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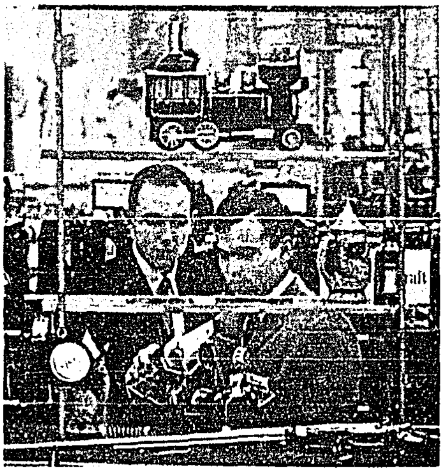

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1 Ray Moore, 38, is manager of the new Penney 100 Oaks store in suburban Nashville. He joined Penney's as a management trainee 18 years ago.

2 Mike Swink, 24, manages departments that include women's furnishings and accessories. He has been with the Company six years.

3. Carroll Jones, 32, is sales and merchandise manager and number two man in the Nashville store. Standing at the rear here, he is briefing the store's management staff.

4. Mrs. Julia Hadden, 38, is personnel manager. She has been with Penney's nine months.

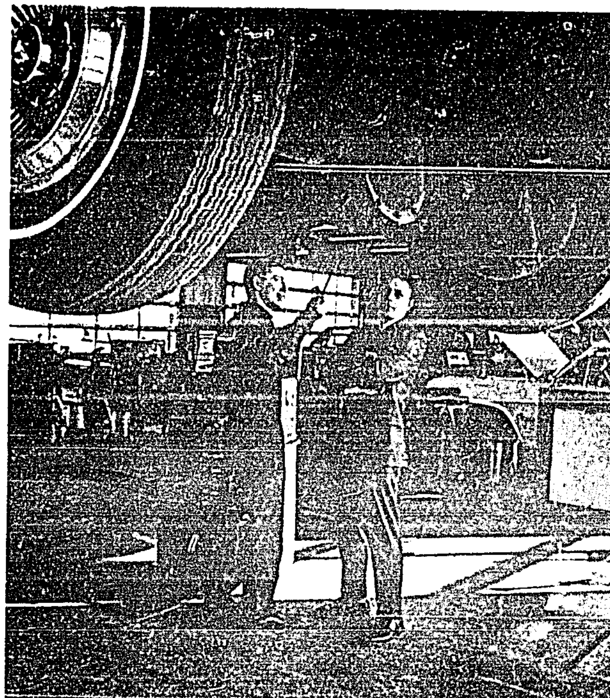
5. Don Ritz, 29, left, manages the men's department. Here he explains accessories to management trainee Tom Ball, 24.

6. Ted Bowen, 28, manages the hard goods division. He has been with the Company seven years.

7. Clyde Childers, 26, far left, manages the paint, hardware, sporting goods and patio shop departments. In the left foreground is Alex Ball, 18, a salesman in the paint and hardware department.

8. Jim Latture, 25, manages the 12,000-square-foot automotive center at 100 Oaks. He has a sales and service staff of 35.

9. Don Yeager, 29, manages the store's soft lines division. He has been with Penney's seven years.



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Sandra Maron, 23, is a layout artist in the advertising department of Penney's Treasure Island Division. Mrs. Maron has been with Penney's for 1 1/2 years and has participated in the development of new advertising concepts for Treasure Island.

potential in insurance and other consumer financial services is excellent.

Management Changes

Ray H. Jordan is retiring as president on April 1, 1968, after 38 years with the Company. Mr. Jordan joined Penney's as a salesman and later became in succession: zone manager, treasurer, vice president and director of personnel and then executive vice president. In 1964, he was elected president.

Mr. Jordan has made significant contributions to the Company's current and past operating results and has been instrumental in helping to shape its future. He will continue to serve Penney's as a director.

Cecil L. Wright will succeed Mr. Jordan as president. Mr. Wright joined the Company in 1928 in his home town of Greeneville, Tennessee. His positions with Penney's have included store manager, district manager in St. Louis and assistant to the sales manager in the central office in New York. He was named head of the stores department in 1952, a vice president in 1955, a director in 1957, general sales and merchandise manager in 1961 and executive vice president in 1967.

Charles T. Stewart, secretary and general counsel, was elected a vice president and member of the board of directors on October 25, 1967. He filled a vacancy on the board created by the retirement of William L. Marshall.

George S. Stewart, formerly a zone manager for Penney's, was elected a vice president and director of stores on September 27, 1967, succeeding Mr. Marshall in those positions. Mr. Stewart has been nominated for election to the board of directors at the annual meeting May 21, 1968.

Walter J. Neppl, vice president and general merchandise manager for hard lines, will become general sales and merchandise manager on April 1, 1968. He also has been nominated for election to the board of directors at the annual meeting. He continues as a corporate vice president.

Messrs. Neppl and George Stewart will succeed as directors Earl A. Ross and Fred A. Bantz, who, after long service with the Company, requested that they not be renominated to make room for members of Penney's current management.

Mr. Ross was elected a director in 1930 and retired as manager of real estate and construction in 1945. Mr. Bantz, who retired from Penney's in 1955 as vice president and merchandise manager, was elected a director in 1945. Their combined service with the Penney Company totals almost 100 years.

Wallis G. Hocker was promoted to general credit manager on April 1, 1967.

FINANCIAL REVIEW

Credit Operations

The Company's expanding credit program is essential to the growth of its retail operations. It has allowed us to expand into new lines of merchandise and helped customers make purchases of such big-ticket items as furniture, appliances and television sets. It has been a convenience for customers making smaller purchases as well.

In 1967, more than $1 billion of Penney merchandise was purchased through our credit plans, an increase of over $100 million from 1966. Credit sales amounted to 37.6% of total sales last year, up from 35.1% in 1966. Net customer receivables at January 27, 1968, totaled $497 million, an increase of $44 million during the year.

The number of customer accounts with outstanding balances totaled more than 6 million at year-end. Our net bad debt losses for the year were 1.12% of credit sales, compared with 1.00% for 1966.

There are two ways that a customer can use Penney credit: regular charge account and time payment plan. The majority of our credit sales are made through regular charge accounts. The time payment plan generally is used for major purchases and provides for

Carol Zilz, 27, is a financial analyst in the financial planning division at Penney's New York headquarters office. She has been with the Company three years.

payment over a period up to three years.

Our charge card can be used at any Penney store in the country as well as for catalog purchases. The customer receives a single monthly bill for all purchases. In states where Penney's insurance companies are selling health and accident insurance, the customer has the option of having the cost of this protection billed to his Penney charge account.

Penney's has developed several systems and procedures to make sure that customer receivables are always of high quality. The Company investigates all credit applications thoroughly through recognized credit reporting services. At the Company's 11 regional credit offices, accounts are billed and aged monthly. During the year, IBM 360 computers were installed in the 11 offices to replace earlier computer models. By using computers, the credit operation is able to speed up collections, lower delinquencies and thereby maintain tight control over its receivables.

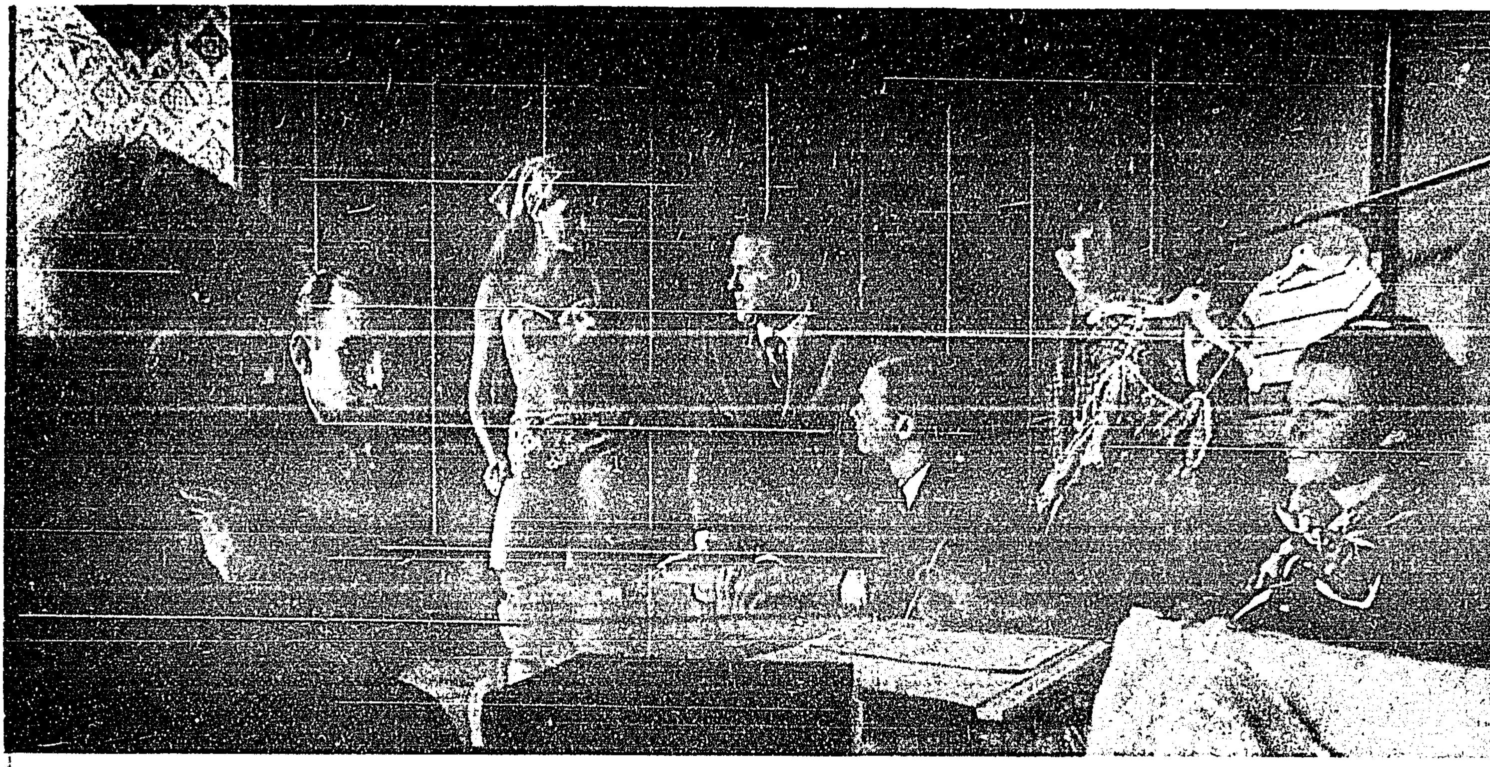
In major metropolitan areas, Penney credit managers participate in community credit counselling services; in a number of communities they have been instrumental in establishing these services with the cooperation of other retailers. The purpose is to counsel customers who are unable to meet their credit obligations and to help them develop sound family budgets. Through these services, our credit managers counsel many customers other than those who shop in Penney stores. In this way, Penney's contributes to the economic well-being of all consumers as part of its continuing role of good citizenship in the communities it serves.

J. C. Penney Credit Corporation

Operations of this subsidiary, which purchases customer receivables from the parent company, continued to expand in 1967. The receivables purchased rose to $1,044 million in 1967 from $988 million in 1966. At year-end, the subsidiary owned $483 million of customer receivables, up from

Top: Penney's maintains a strong West Coast merchandising and buying staff. Here, Bill Fox (far left), West Coast merchandise manager, looks on as a 1968 swim suit line is reviewed by Fred Jewell, 28, assistant buyer; Jack Wylie, 27, buyer trainee; Ed White, 25, buyer trainee; and Julie Davis, 27, assistant buyer.

Bottom: Penney automotive buyers have designed several Penney products, such as this citizens band radio. Shown testing the radio are, from left to right, Tom Molter, 27-year-old buyer; Will Dubin, 40, automotive services and merchandise manager; Fred Brown, 28, assistant buyer; and Bob Dewey, 29, assistant buyer.



$440 million a year earlier.

Net income of the Credit Corporation rose to $6.5 million from $5.7 million in 1966. The subsidiary's source of income consists of monthly charges to the parent company to cover the subsidiary's fixed charges, chiefly interest on its borrowings.

The earnings of the Credit Corporation bear no relationship to the net cost of credit operations of the Penney Company. The parent bears its own cost of administering its retail credit program. Also, the parent, rather than the subsidiary, receives the service charges paid on customer accounts. Credit operations of the parent have not reached the break-even point.

To strengthen the Credit Corporation's ability to purchase customer receivables from the parent company, and thus help finance the parent's credit program, the Credit Corporation in February 1967 sold $50 million of 5³/₈% debentures maturing in 1987. In July 1967, Penney's made a capital contribution of $15 million to the Credit Corporation. The parent company's equity in the subsidiary, including retained earnings since the subsidiary's incorporation in April 1964, was $81 million at the end of the year.

Capital Expenditures

Penney's capital expenditures rose to $109 million in 1967 from $71 million in 1966. Capital expenditures are expected to rise to about $150 million in 1968. These increases result from the Company's continuing expansion program, with the outlays covering the purchase of land for future store and stockroom sites, the construction of stores and the purchase of fixtures.

During 1967, our landlords spent about $64 million on Penney stores, compared with about $51 million in 1966. The figure is expected to increase in 1968.

Where the opportunity exists, and a lower occupancy cost results, we erect our own buildings instead of leasing new stores. However, leasing will continue to play an important role in our expansion program.

Financing

In order to finance our ongoing expansion program, selected stores and other properties owned by the Company are being sold and leased back. During 1967 we arranged sale and leaseback agreements for 14 properties involving a total of $37 million. We expect to negotiate additional sale and leaseback transactions in 1968.

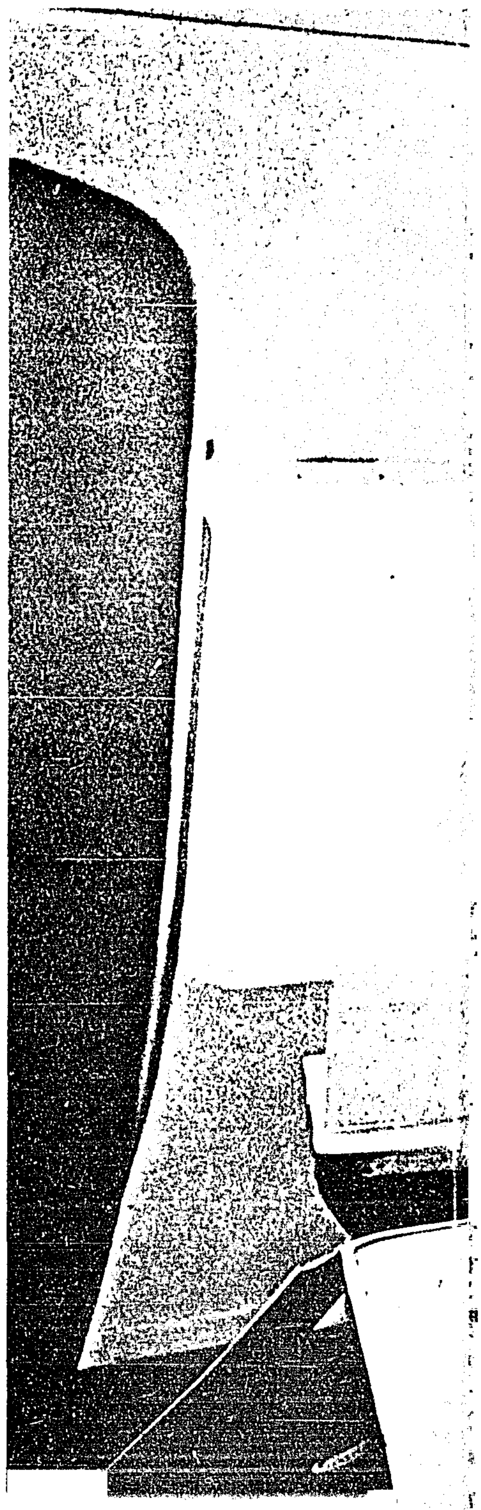
In December 1967, the Company and J. C. Penney Credit Corporation entered into a revolving credit agreement with seven of our credit line banks, under which the banks have agreed to lend the two companies an aggregate of $100 million on a revolving basis through February 1, 1971. There are no borrowings currently outstanding under the credit agreement.

Taxes

The effective Federal income tax rate for 1967 was 46.1%, which was the same as the rate in 1966. Investment tax credit in 1967 was $3.8 million, or 15 cents per share, against $2.4 million, or 10 cents per share, in the prior year. Taxes other than Federal income taxes totaled $41 million against $36 million in 1966.

Accounting Changes

During the year Penney's changed its accounting methods relating to layaway sales and depreciation of fixtures and equipment. Layaway sales are now recorded when merchandise is set aside, rather than when payments are made by customers. Commencing with 1967, fixtures and equipment acquisitions are being depreciated on the straight line method; fixtures and equipment acquired prior to 1967 continue to be depreciated on the declining balance method. These accounting changes had no material effect on net income.



As Operations and Control Representative for the five Penney district offices headquartered in Atlanta, Dave Hacker, 34, spends a good part of his time helping Penney's open new stores in the South. He advises management of new stores on such non-selling operations as credit, office procedures, stockroom management and employment.

SOURCE AND USE OF FUNDS

	52 Weeks Ended January 27, 1968	January 28, 1967
Funds were made available from:		
Net income	**$ 89,549,746**	$ 79,059,029
Depreciation	**26,433,152**	23,452,558
Sale and leaseback transactions	**36,973,473**	—
Decrease in working capital and other items	**29,214,044**	17,084,467
	$182,170,415	$119,596,054
Funds were used for:		
Cash dividends	**$ 44,906,274**	$ 43,034,146
Capital expenditures	**109,090,390**	70,838,765
Increase in equity in subsidiaries	**28,173,751**	5,723,143
	$182,170,415	$119,596,054

ACCOUNTANTS' REPORT

To the Stockholders and the Board of Directors of J. C. Penney Company

We have examined the balance sheet of J. C. Penney Company as of January 27, 1968 and the related statements of income and retained earnings and the statement of source and use of funds for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of J. C. Penney Company at January 27, 1968 and the results of its operations for the 52 weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and use of funds of J. C. Penney Company for the 52 weeks ended January 27, 1968 presents fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants

New York, New York
March 21, 1968

STATEMENT OF INCOME

	52 Weeks Ended January 27, 1968	January 28, 1967
Sales	$2,745,997,581	$2,549,361,688
Costs and expenses		
Cost of goods sold, occupancy, buying and warehousing costs	1,964,424,049	1,835,541,045
Selling, general and administrative expenses	592,042,430	546,225,680
Interest *(note 1)*	23,525,356	20,949,534
Total costs and expenses	2,579,991,835	2,402,716,259
Income before Federal income taxes	166,005,746	146,645,429
Federal income taxes—*including tax effects of $4,100,000 and $11,500,000 (note 5)*	76,456,000	67,586,400
Net income	$ 89,549,746	$ 79,059,029
Per share of common stock	$3.59	$3.17

STATEMENT OF RETAINED EARNINGS

Retained earnings—*beginning of year*	$ 433,653,398	$ 397,628,515
Net income for the year	89,549,746	79,059,029
Dividends *($1.80 per share; $1.72½ in 1966)*	(44,906,274)	(43,034,146)
Retained earnings—*end of year*	$ 478,296,870	$ 433,653,398

See notes to financial statements on page 25.

BALANCE SHEET

	January 27, 1968	January 28, 1967
ASSETS		
Current assets		
Cash	$ 55,549,414	$ 54,058,831
Receivables, *less allowance for doubtful accounts of $15,359,045 and $13,991320*	521,219,283	463,730,930
Less net amount sold to J. C. Penney Credit Corporation	483,244,496	439,941,357
Net receivables	37,974,787	23,789,573
Merchandise, *at the lower of cost or market determined mainly by the retai method*	469,282,059	475,434,563
Properties to be sold under sale and leaseback agreements	15,002,842	—
Prepaid expenses	12,737,141	12,294,644
Total current assets	590,546,243	565,577,611
Investment in subsidiary companies *(note 1)*	87,914,683	59,740,932
Properties, *at cost (note 3)*		
Land	20,233,935	19,011,895
Buildings, *less depreciation of $6,293,715 and $5,607,843*	63,656,253	46,463,187
Fixtures and equipment, *less depreciation of $134,637,089 and $117,747,244*	137,811,421	112,791,603
Leasehold improvements, *less amortization of $5,958,753 and $5,502,055*	16,029,114	13,896,239
Total properties	237,730,723	192,162,924
	$916,191,649	$817,481,467

	January 27, 1968	January 28, 1967
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$228,397,384	$218,165,110
Due to J. C. Penney Credit Corporation	55,829,416	19,997,541
Dividend payable	14,969,052	14,968,331
Federal income taxes	26,934,408	23,601,718
Deferred credits, *principally tax effects applicable to installment sales (no 5)*	63,750,000	57,250,000
Total current liabilities	389,880,260	333,982,700
Deferred credits, *principally tax effects applicable to depreciation (note 5)*	8,600,000	10,500,000
Stockholders' equity *(note 6)*		
Common stock, *par value $1, authorized 27,000,000 shares, issued 24,94819 shares*	39,414,519	39,345,369
Retained earnings	478,296,870	433,653,398
Total stockholders' equity	517,711,389	472,998,767
	$916,191,649	$817,481,467

See notes to financial statements on page 25.

1. Principles of Consolidation The financial statements include the accounts of the Company and its wholly owned real estate subsidiary. Investment in subsidiary companies represents the Company's interests in three wholly owned subsidiaries *(J. C. Penney Credit Corporation and two insurance companies)*, which are carried at cost plus equity in net income since formation or date of acquisition.

Substantially all of the income of J. C. Penney Credit Corporation is derived from the Company, and all of the income of that corporation has been offset against interest expense. The Federal income taxes applicable to such income are included in Federal income taxes in the statement of income, which has been restated for 1966 on a comparable basis. Following is a summary of the audited balance sheet of J. C. Penney Credit Corporation:

	January 27, 1968
Customer receivables purchased from J. C. Penney Company, less 5% withheld pending collection	*$483,244,496*
Due from J. C. Penney Company	*55,829,416*
Cash	*1,130,482*
Other assets	*2,064,731*
	$542,269,125
Notes payable	*$356,774,878*
Accrued interest and other liabilities	*2,211,005*
Federal income taxes	*2,001,349*
Long-term debt	*100,000,000*
Equity of J. C. Penney Company	*81,281,893*
	$542,269,125

2. Leases The Company conducts the major part of its operations from leased premises. Substantially all leases will expire during the next 35 years; in the normal course of business, however, leases are renewed or replaced by leases on other properties. Minimum annual rentals at January 27, 1968 amounted to approximately $44 million; rent expense, including rent based on sales, was $76,969,441 in 1967 and $69,588,351 in 1966.

3. Depreciation Store and distribution buildings and leasehold improvements are depreciated principally on the straight-line method. Fixtures and equipment acquired prior to 1967 are depreciated principally on the declining-balance method; for subsequent acquisitions a change was made to the straight-line method. This change had no material effect on net income. Depreciation expense amounted to $26,433,152 in 1967 and $23,452,558 in 1966.

4. Retirement Plan All full-time employees of the Company become eligible to participate in the Company's retirement plan after 30 months of service. The plan consists of a contributory pension fund and a deferred profit-sharing fund. The aggregate Company contribution under the plan, based on income, amounted to $14,434,706 in 1967 and $12,751,776 in 1966. All accrued pension benefits have been fully funded.

5. Tax Effects In calculating Federal income tax liability, the Company defers gross profit as permitted on installment sales and deducts greater amounts for depreciation than are recorded for financial accounting purposes. Tax effects shown in the statement of income represent additional Federal income taxes that would have been due if these practices were not followed.

Accumulated tax effects are shown in the balance sheet as deferred credits. These amounts are not liabilities and in the normal course of business may never be paid.

6. Stock Options At January 27, 1968 there were 298,800 shares of stock reserved for the Company's qualified stock option plan. Shares under options were as follows:

	Shares	*Price Range*
Balance at beginning of year	*160,150*	*$57 5/8-68*
Granted	*3,000*	*65 1/8*
Exercised	*(1,200)*	*57 5/8*
Expired	*(10,600)*	*57 5/8-68*
Balance at end of year	*151,350*	*$57 5/8-68*

Options for 70,560 shares were exercisable at the end of the year.

A stock option for 280 shares granted in connection with an acquisition in 1962 is exercisable at $39.02 per share on or before May 16, 1971.

TEN-YEAR FINANCIAL REVIEW

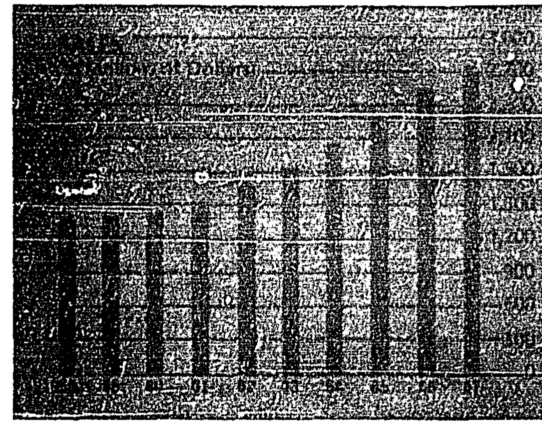
Year†	1967	1966	1965	1964	1963	1962
RESULTS FOR YEAR						
Sales	$ 2,745,997,581	2,549,361,688	2,289,209,426	2,079,425,668	1,834,317,527	1,701,332,645
Credit sales—*percent of total sales*	*37.6*	*35.1*	*33.1*	*30.3*	*27.6*	*24.7*
Income before Federal taxes	166,005,746	146,645,429	141,861,389‡	127,873,402	109,899,198	114,404,070
Percent of sales	*6.0*	*5.8*	*6.2‡*	*6.1*	*6.0*	*6.7*
Net income	89,549,746	79,059,029	78,898,254‡	68,271,402	55,292,198	54,804,070
Percent of sales	*3.3*	*3.1*	*3.4‡*	*3.3*	*3.0*	*3.2*
Percent of stockholders' equity	*18.9*	*18.1*	*19.7*	*18.7*	*16.0*	*17.0*
Dividends	44,906,274	43,034,146	43,034,080	37,406,836	37,391,768	37,386,567
Increase in retained earnings	44,643,472	36,024,883	35,864,174	36,307,597	17,900,430	17,417,503
Depreciation	26,433,152	23,452,558	19,578,803	16,905,155	15,578,393	14,973,076
Capital expenditures	109,090,390	70,838,765	45,824,287	39,835,780	19,966,950	21,926,658
PER SHARE RESULTS*						
Net income	$ 3.59	3.17	3.16‡	2.74	2.22	2.20
Dividends	1.80	1.72½	1.72½	1.50	1.50	1.50
FINANCIAL POSITION						
Working capital	$ 200,665,983	231,594,911	245,699,939	234,531,761	272,621,504	255,163,738
Customer receivables *(net)*						
J. C. Penney Credit Corporation	483,244,496	439,941,357	298,672,486	187,998,214	—	—
J. C. Penney Company	13,508,663	12,439,346	62,961,474	101,080,971	224,789,049	168,659,516
Merchandise inventories	469,282,059	475,434,563	384,478,234	310,620,911	285,310,602	244,030,829
Stockholders' equity	517,711,389	472,998,767	436,973,884	401,106,091	364,143,440	346,061,271
NUMBER OF STORES						
Stores	1,664	1,661	1,669	1,676	1,680	1,685
Catalog sales centers	637	565	458	405	146	21
Store space—*in millions of gross square feet*	56.7	51.3	47.6	44.4	42.3	40.9
STOCKHOLDERS AND EMPLOYEES						
Number of stockholders	52,003	52,524	53,126	51,580	47,863	45,315
Number of employees	87,500	77,000	65,500	56,000	51,000	47,000

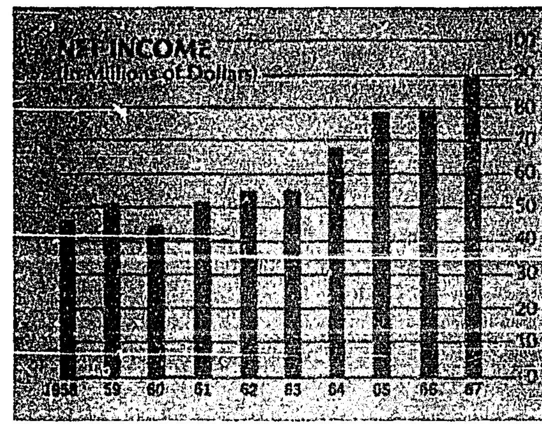
†Years 1965 through 1967 are 52-week periods ended on the last Saturday in January of the subsequent year, 1959 through 1964 are fiscal years ended January 31 of the subsequent year; and 1958 is the 13-month period ended January 31, 1959.

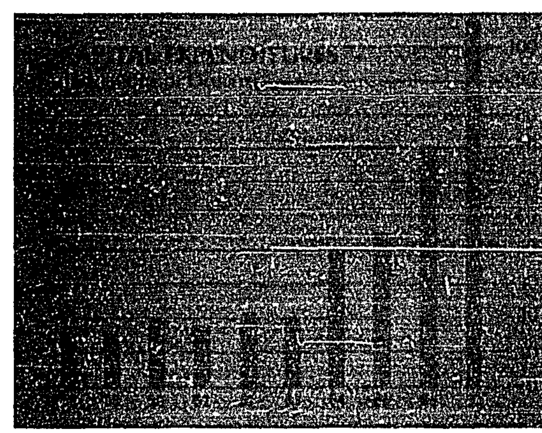
‡Income before Federal taxes for 1965 excludes gain on sale of headquarters building. This net gain of $2,840,865 (11 cents per share) is included in net income.

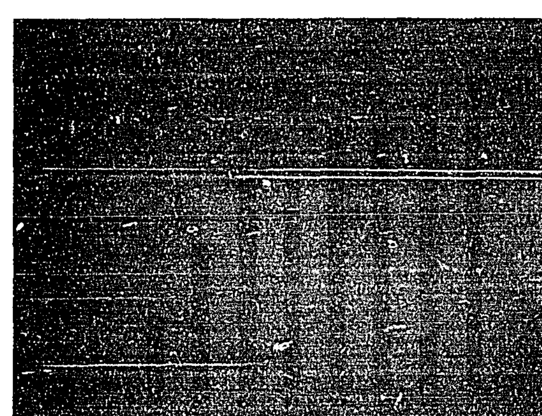
*Prior years adjusted for 3 for 1 split in May, 1960.

1962	1961	1960	1959	1958
1,701,332,645	1,553,505,660	1,468,917,982	1,437,489,357	1,409,972,649
24.7	*17.1*	*8.5*	*2.8*	*.3*
114,404,070	107,638,552	94,094,095	108,023,734	95,376,831
6.7	*6.9*	*6.4*	*7.5*	*6.8*
54,804,070	51,738,552	44,994,095	51,523,734	46,876,831
3.2	*3.3*	*3.1*	*3.6*	*3.3*
17.0	*16.8*	*15.0*	*18.3*	*17.3*
37,386,567	37,043,784	37,043,784	33,339,405	34,985,796
17,417,503	14,694,768	7,950,311	18,184,329	11,891,035
14,973,076	13,793,559	12,537,040	11,527,181	11,790,207
21,926,658	18,195,230	20,201,386	15,918,373	16,392,361
2.20	2.10	1.82	2.09	1.90
1.50	1.50	1.50	1.35	1.42
255,163,738	237,610,793	225,409,903	225,271,019	210,246,010
—	—	—	—	—
168,659,516	97,722,383	52,208,936	19,393,451	2,658,177
244,030,829	216,598,949	203,823,435	209,738,361	192,934,812
346,061,271	323,014,262	308,319,494	300,369,182	282,184,854
1,685	1,686	1,695	1,683	1,687
21	—	—	—	—
40.9	39.8	37.9	35.9	34.6
45,315	41,748	39,136	34,766	33,997
47,000	43,000	40,000	36,000	35,000









OFFICERS

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Cecil L. Wright
Executive Vice President*

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Vice President and
Director of Finance
and Administration

William K. Barry
Vice President and
General Merchandise
Manager–Soft Lines

Woodrow P. Campbell
Vice President and
Director of Technical
and Distribution Services

Oakley S. Evans
Vice President and
Director of Corporate
Development

William L. Marshall**
Vice President and
Director of Stores

Lee S. Moore
Vice President and
Sales Manager

Walter J. Neppl
Vice President and
General Sales and
Merchandise Manager

Donald V. Seibert
Vice President and
Director of Catalog
Sales and Operations

Frederick R. Seltzer
Vice President and
Director of Personnel

Charles T. Stewart
Vice President,
Secretary and General
Counsel

George S. Stewart
Vice President and
Director of Stores

Arthur Jacobsen
Treasurer

Robert L. Adair
Controller

Paul R. Kaltinick
Assistant Treasurer

Albert W. Driver, Jr.
Assistant Secretary

Elting H. Smith
Assistant Secretary

John F. Wood
Assistant Controller

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J. C. Penney

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Vice President
J. C. Penney Company

Fred A. Bantz
Retired Vice President
and Merchandise Manager
J. C. Penney Company

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Chairman of the Board
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Vice President
J. C. Penney Company

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Chairman of the Board
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Marketing, American
Telephone and Telegraph Co.

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J. C. Penney Company

Charles T. Stewart
Vice President
J. C. Penney Company

Cecil L. Wright
Executive Vice President*
J. C. Penney Company

Walter B. Wriston
President
First National City Bank

*Mr. Jordan will retire as president April 1, 1968, and will be succeeded by Mr. Wright

**Mr. Marshall retired October 1, 1967.

ANNUAL MEETING

Our annual meeting of stockholders will be held at 10 a.m. Tuesday, May 21, 1968, in the Los Angeles Room, Century Plaza Hotel, Los Angeles, California. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 10, 1968. Your prompt attention to the proxy statement will be appreciated.

Cecil L. Wright will become president of Penney's on April 1, 1968.

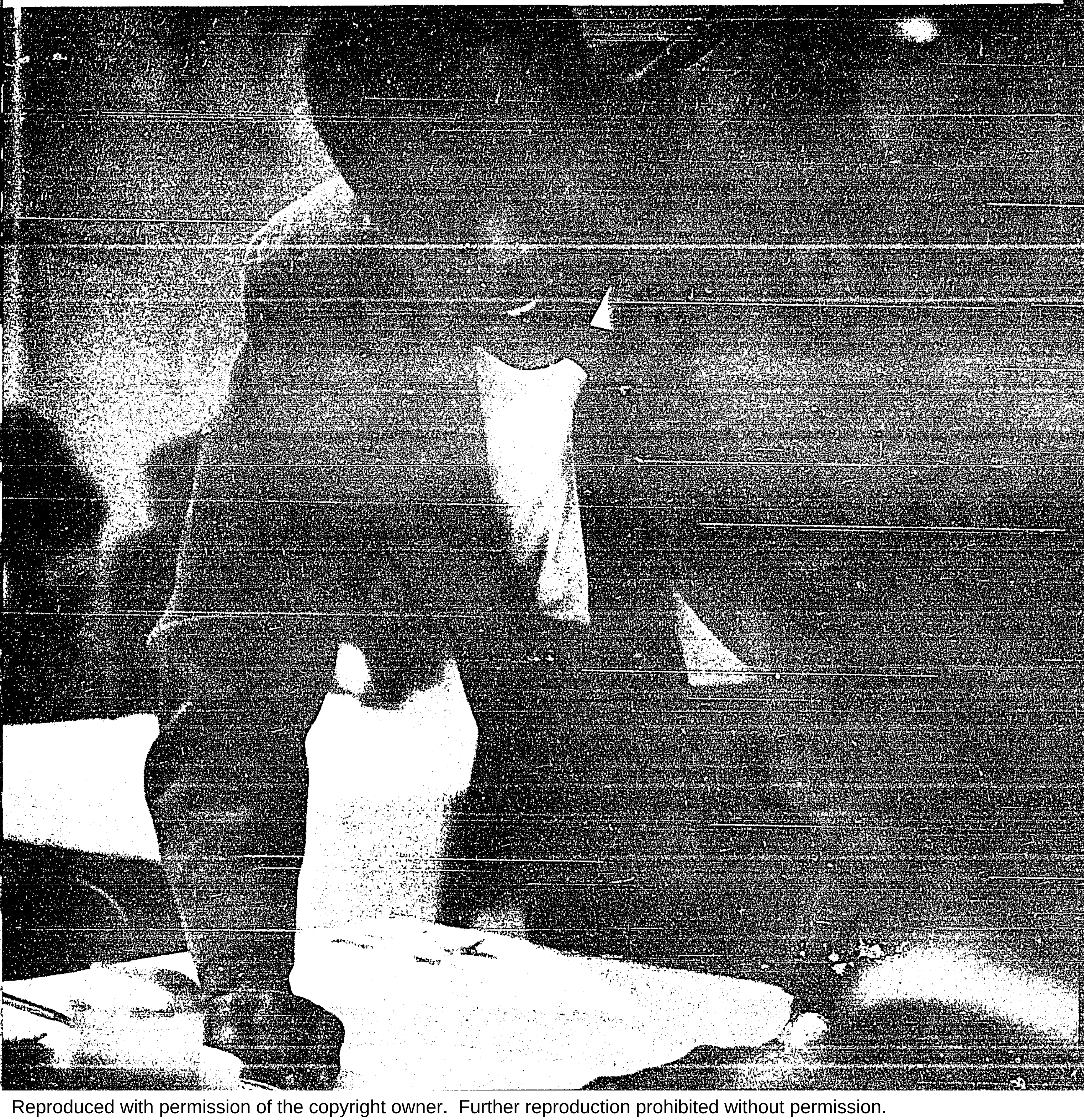
TRANSFER AGENT

Chemical Bank
New York Trust Company
20 Pine Street
New York, New York 10015

REGISTRAR

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

R C. Owens, 33, is a public relations representative for Penney's. His assignment: encourage young men and women to complete their education. For several months last year, R. C. was on full-time loan to the Job Corps, which provides similar encouragement. Here, he is speaking with men and women at the Columbia Basin Job Corps Center at Ephrata, Washington.



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